

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Basic Financial Statements

Year ended June 30, 2012

(With Independent Auditors' Report Thereon)

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Basic Financial Statements

Year ended June 30, 2012

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The Board of Directors
Torrance Public Financing Authority
City of Torrance, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the City of Torrance Public Financing Authority, a component unit of the City of Torrance, California, as of and for the year ended June 30, 2012, which collectively comprise the City of Torrance Public Financing Authority's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the management of the City of Torrance Public Financing Authority. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the financial statements of the City of Torrance Public Financing Authority for the year ended June 30, 2011 and, in our report dated December 9, 2011, we expressed unqualified opinions on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the basic financial statements of the City of Torrance Public Financing Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the activities of the City of Torrance that are attributable to the transactions of the City of Torrance Public Financing Authority. They do not purport to, and do not, present fairly the financial position of the City of Torrance, California, and the changes in its financial position and the cash flows of its proprietary funds types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Torrance Public Financing Authority as of June 30, 2012 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Irvine, California
December 21, 2012

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Statement of Net Assets

June 30, 2012

(with comparative totals for prior year)

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents with fiscal agents (note 2 and 3)	\$ 6,242,096	6,512,833
Total current assets	<u>6,242,096</u>	<u>6,512,833</u>
Noncurrent assets:		
Lease payment receivable (note 5)	60,695,000	62,175,000
Total noncurrent assets	<u>60,695,000</u>	<u>62,175,000</u>
Total assets	<u>66,937,096</u>	<u>68,687,833</u>
Liabilities		
Current liabilities (payable from current assets):		
Accrued interest payable	488,223	494,662
Accounts payable	62,870	—
Due to the City of Torrance	9,970	8,411
Long-term liabilities – portion due or payable within one year (note 4)	<u>1,535,000</u>	<u>1,480,000</u>
Total current liabilities	2,096,063	1,983,073
Noncurrent liabilities		
Portion due or payable after one year (note 4)	<u>59,160,000</u>	<u>60,695,000</u>
Total noncurrent liabilities	<u>59,160,000</u>	<u>60,695,000</u>
Total liabilities	<u>61,256,063</u>	<u>62,678,073</u>
Net Assets		
Restricted for debt service	3,334,532	3,395,557
Unrestricted	<u>2,346,501</u>	<u>2,614,203</u>
Total net assets	<u>\$ 5,681,033</u>	<u>6,009,760</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Statement of Activities

Year ended June 30, 2012

(with comparative totals for prior year)

	<u>2012</u>	<u>2011</u>
Expenses:		
General government	\$ 282,562	103,341
Interest on long-term debt	3,084,741	3,131,088
Total expenses	<u>3,367,303</u>	<u>3,234,429</u>
Charges for services:		
Investment earnings	47,847	74,468
Leasing charges	2,990,729	3,078,116
Total charges for services	<u>3,038,576</u>	<u>3,152,584</u>
Change in net assets	(328,727)	(81,845)
Net assets – beginning of year	<u>6,009,760</u>	<u>6,091,605</u>
Net assets – end of year	<u>\$ 5,681,033</u>	<u>6,009,760</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)
Balance Sheet – Governmental Funds

June 30, 2012

(with comparative totals for prior year)

			2012	2011
	Debt Service Fund	Capital Project Fund	Total Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents with fiscal agents (notes 2 and 3)	\$ 4,583,487	1,658,609	6,242,096	6,512,833
Lease payments receivable (note 5)	60,695,000	—	60,695,000	62,175,000
Total assets	<u>\$ 65,278,487</u>	<u>1,658,609</u>	<u>66,937,096</u>	<u>68,687,833</u>
Liabilities and Fund Balances				
Liabilities:				
Unearned revenue (note 5)	\$ 60,695,000	—	60,695,000	62,175,000
Accounts payable	—	62,870	62,870	—
Due to other funds	—	9,970	9,970	8,411
Total liabilities	<u>60,695,000</u>	<u>72,840</u>	<u>60,767,840</u>	<u>62,183,411</u>
Fund balances:				
Restricted for:				
Debt service	4,583,487	—	4,583,487	4,650,951
Capital projects	—	1,585,769	1,585,769	1,853,471
Total fund balances	<u>4,583,487</u>	<u>1,585,769</u>	<u>6,169,256</u>	<u>6,504,422</u>
Total liabilities and fund balances	<u>\$ 65,278,487</u>	<u>1,658,609</u>	<u>66,937,096</u>	<u>68,687,833</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2012

Total fund balances for governmental funds	\$ 6,169,256
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.	(60,695,000)
Revenue reported as unearned revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the government fund activity.	60,695,000
Amounts reported for governmental activities in the statement of net assets are different because interest payable on long-term debt does not require current financial resources:	
Accrued bond interest	(488,223)
Net assets of governmental activities	<u>\$ 5,681,033</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
(A Component Financial Reporting Unit of the City of Torrance)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2012
(with comparative totals for prior year)

			2012	2011
	Debt Service Fund	Capital Project Fund	Total Governmental Funds	Total Governmental Funds
Revenues:				
Use of money and property	\$ 4,503,716	14,860	4,518,576	4,592,584
Total revenues	<u>4,503,716</u>	<u>14,860</u>	<u>4,518,576</u>	<u>4,592,584</u>
Expenditures:				
Capital outlay	—	282,562	282,562	103,341
Debt service (note 4):				
Principal	1,480,000	—	1,480,000	1,440,000
Interest	<u>3,091,180</u>	<u>—</u>	<u>3,091,180</u>	<u>3,136,229</u>
Total expenditures	<u>4,571,180</u>	<u>282,562</u>	<u>4,853,742</u>	<u>4,679,570</u>
Excess (deficiency) of revenues over expenditures	<u>(67,464)</u>	<u>(267,702)</u>	<u>(335,166)</u>	<u>(86,986)</u>
Net change in fund balance	(67,464)	(267,702)	(335,166)	(86,986)
Fund balances, July 1, 2011	<u>4,650,951</u>	<u>1,853,471</u>	<u>6,504,422</u>	<u>6,591,408</u>
Fund balances, June 30, 2012	<u>\$ 4,583,487</u>	<u>1,585,769</u>	<u>6,169,256</u>	<u>6,504,422</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
THE CITY OF TORRANCE, CALIFORNIA
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Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year ended June 30, 2012

Net change in fund balances for governmental funds	\$ (335,166)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.	1,480,000
Revenue reported as unearned revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the government fund activity.	(1,480,000)
The change in net assets reported for governmental activities in the statement of activities is different because the interest payable on long-term debt is only recognized in governmental funds when it is paid and not when it is earned	<u>6,439</u>
Changes in net assets of governmental activities	<u>\$ (328,727)</u>

See accompanying notes to the basic financial statements.

TORRANCE PUBLIC FINANCING AUTHORITY
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Notes to the Basic Financial Statements

Year ended June 30, 2012

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting entity

Torrance Public Financing Authority (the Authority), was organized on December 1, 1997 for the purpose of assisting the City of Torrance (the City) in constructing and financing certain fire and police protection facilities and certain additional capital improvements (the Projects) within the City. The City has entered into noncancelable long-term leases with the Authority, which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the bonds and certificates of participation issued by the Authority. In turn, the Projects are being leased back to the City pursuant to sublease agreements and options to purchase (Subleases). Upon payment of all base rental required under Subleases or exercise of the City's option to purchase the Projects, title to the Projects will vest to the City.

Since the Authority is financially dependent upon the City, it is considered to be a component unit of the City's reporting entity and has been included in the City's Comprehensive Annual Financial Report for the year ended June 30, 2012.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the Authority. The Authority's activities are supported by lease payments from the City for the Projects the Authority has under sublease from the City. The government-wide financial statements are reported using the economic resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) contributions that are restricted to meeting the debt or capital requirements of a particular function or segment.

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Notes to the Basic Financial Statements

Year ended June 30, 2012

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in physical form (such as inventory) or that are legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by external legal requirements imposed by other governments, external resource providers, or creditors. Board imposed restrictions do not create restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.

Committed Fund Balance – this includes amounts that can only be used for specific purposes pursuant to the most binding constraint imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board rescinds or modifies the specified use by resolution. If the Board resolution that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. The Authority considers a resolution to constitute a formal action of the Board of Directors for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are intended to be used for specific purposes as indicated by the Board of Directors.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the Authority's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

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Notes to the Basic Financial Statements

Year ended June 30, 2012

The funds designated as major funds are determined by a mathematic calculation consistent with GASB 34.

The Authority reports the following as major governmental funds:

The ***Debt Service Fund*** is used to account for the accumulation of the Authority's resources for, and the payment of, general long-term debt principal, interest, and related costs.

The ***Capital Projects Fund*** is used to account for the Authority's financial resources to be used for the acquisition or construction of major capital facilities.

(c) Budgetary Principles

Annual budgets are not required for the Authority's Capital Project and Debt Service funds because effective budgetary control is achieved through alternative means, such as project-by-project analysis and provisions of the bond indenture.

(d) Cash and Investments

Cash and investments of the Authority are pooled with that of the City and are invested by the City Treasurer. The Authority's investment policy guidelines provide for pooling its cash and investments with the City Treasurer and allow for the same types of investments as the City. State statutes authorize the Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, municipal bonds and the State Treasurer's Investment Pool.

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Interest is allocated to the Authority based on its proportional share of the pooled cash and investments. The Authority's share of pooled cash and investments with the treasurer is carried at fair value.

Investments for the Authority are reported at fair value. The State Treasurer's Investments Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

(e) Cash and Investments with Fiscal Agent

Cash and investments with fiscal agents represents amounts held by a trustee bank that are restricted for use in either acquiring certain assets or servicing long-term debt of the Authority as required by the bond indentures. Investments in guaranteed investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the fund's share price.

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Notes to the Basic Financial Statements

Year ended June 30, 2012

(f) Long-Term Liabilities

In the Government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

(g) Fund Balance

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use.

(h) Comparative data

The Torrance Public Financing Authority Statement of Net Assets, Statement of Activities, Balance Sheet – Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds shows data for the fiscal year ended June 30, 2011 for comparative purposes only.

(2) Cash and Investments

Cash and investments at June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and investments held by fiscal agent	\$ 6,242,096
Total cash and investments	<u>\$ 6,242,096</u>

Cash and investments at June 30, 2012 consist of the following:

Investments	\$ 6,242,096
Total cash and investments	<u>\$ 6,242,096</u>

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Notes to the Basic Financial Statements

Year ended June 30, 2012

Investments Authorized by Debt Agreements

Investments of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Local Agency Investment Fund	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Authority's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that shows the distribution of the City's investments by maturity.

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Notes to the Basic Financial Statements

Year ended June 30, 2012

Information about the sensitivity of fair values of the Authority's investments held by fiscal agent to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months</u> <u>Or Less</u>	<u>13-24</u> <u>Months</u>	<u>25-60</u> <u>Months</u>	<u>More Than</u> <u>60 Months</u>
Held by fiscal agent:				
Money market funds	\$ 5,689,011	5,689,011	-	-
Investment contracts	<u>553,085</u>	<u>-</u>	<u>-</u>	<u>553,085</u>
Total	<u>\$ 6,242,096</u>	<u>5,689,011</u>	<u>-</u>	<u>553,085</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>		<u>Minimum</u>	<u>Exempt</u>	<u>Rating as of Year End</u>		
		<u>Legal</u>	<u>From</u>	<u>AAA</u>	<u>AA+</u>	<u>Not</u>
		<u>Rating</u>	<u>Disclosure</u>			<u>Rated</u>
Held by fiscal agent:						
Money market funds	\$ 5,689,011	A	-	5,689,011	-	-
Investment contracts	<u>553,085</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>553,085</u>
Total	<u>\$ 6,242,096</u>		<u>-</u>	<u>5,689,011</u>	<u>-</u>	<u>553,085</u>

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Year ended June 30, 2012

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for non-major funds in the aggregate) are as follows.

At June 30, 2012, \$553,085 of the investment held by fiscal agent reported in the Debt Service Fund are held in the form of a nonnegotiable unrated investment contract issued by AIG Matched Funding Corporation that matures on November 28, 2028. The remaining investments held by the bond trustee are split between the Debt Service Fund, \$4,030,402, and the Capital Project Fund, \$1,658,609, and are held in a money market account.

Custodial Credit Risk

The Authority does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Authority does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by fiscal agent, the fiscal agent, at the direction of the City Treasurer, selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

(3) Restricted Assets

Certain proceeds of the Authority's fund revenue bonds, as well as certain resources set aside for repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. These assets are primarily required to be held in reserve as security for bondholders with respect to debt service payments.

The 1998 Certificates of Participation require that a reserve fund be maintained at the lesser of: 10% of the issue price of the Certificates then outstanding, excluding interest; or 125% of average annual Lease Payments coming due and payable. At June 30, 2012, the requirement is \$553,085. The amount on reserve is \$553,085.

The 2004 A and B Certificates of Participation require that a reserve fund be maintained at the lesser of: 10% of the original Principal Amount of the Lease Payments; 125% of average annual Lease Payments; or maximum annual Lease Payments. At June 30, 2012, the requirement for Series 2004A is \$1,343,334 and the requirement for Series 2004B is \$1,433,878, a reserve requirement totaling \$2,777,212. The amount on reserve is \$2,754,195.

The 2009 Certificates of Participation require that a reserve fund be maintained at the lesser of: 10% of the original Principal Amount of the Lease Payments; 125% of average annual Lease Payments; or maximum annual Lease Payments. At June 30, 2012, the requirement for Series 2009 is \$1,264,464. The amount on reserve is \$1,260,738.

TORRANCE PUBLIC FINANCING AUTHORITY
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Notes to the Basic Financial Statements

Year ended June 30, 2012

Special Accounts

The bond indentures require the Authority to maintain a number of specific accounts (stipulated in the bond indenture as funds), which are primarily used to fund the construction and make required periodic payments of principal and interest.

- Construction and Acquisition Accounts – Proceeds from the sale of the certificates of participation were deposited into this account to be utilized for costs incurred for infrastructure projects. This account is included in the Authority’s Capital Projects Fund.
- Lease Payment Accounts – The lease agreement requires that the Lease Payment Accounts have on hand funds available for the payment of the principal, interest, and prepayment payments. This account is to be used solely for this purpose. This account is included in the Authority’s Debt Service Fund.
- Reserve Accounts – Monies in the Reserve Accounts may be used for payment of principal and interest when the lease payment account is insufficient to meet the required payments or when all remaining principal and interest on the certificates can be paid in full. This account is included in the Authority’s Debt Service Fund.

(4) Long-Term Liabilities

(a) Changes in Long-Term Liabilities

Activities in the long-term obligations for the year ended June 30, 2012 are as follows:

	1998 Certificate of Participation	2004A Certificate of Participation	2004B Certificate of Participation	2009 Certificate of Participation	Total Long Term Liabilities
Balance at June 30, 2011	\$ 6,540,000	\$ 13,150,000	\$ 23,915,000	\$ 18,570,000	\$ 62,175,000
Principal, satisfied or matured	(240,000)	(925,000)	-	(315,000)	(1,480,000)
Balance at June 30, 2012	6,300,000	12,225,000	23,915,000	18,255,000	60,695,000
Principal, maturing in one year	(255,000)	(955,000)	-	(325,000)	(1,535,000)
Amounts due in more than one year	\$ 6,045,000	\$ 11,270,000	\$ 23,915,000	\$ 17,930,000	\$ 59,160,000

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Notes to the Basic Financial Statements

Year ended June 30, 2012

(b) 1998 Refunding Certificates of Participation

In 1991, the City of Torrance issued \$5,950,000 of certificates of participation (the 1991 Police COPS) to refinance certain lease revenue bonds issued by the Torrance Civic Center Authority to construct the City's police facilities and an adjacent parking area. The outstanding 1991 Police COPS had an average interest rate of 6.75% and a final maturity date of July 1, 2012. The City also issued \$3,520,000 of certificates of participation for improvements to a fire station in 1991 (1991 Fire COPS) with an outstanding balance that had an average rate of 6.29%. In December 1998, the Authority issued refunding certificates of participation to refund the 1991 Police COPS and 1991 Fire COPS for substantial interest rate savings. In addition, given the low interest rates at the time and significant value of the pledged asset (the Police Building valued at \$16,230,000), the City had raised additional funds for capital projects by extending the term of the lease payments to a 30-year certificate of participation with an average interest rate of 5.07%. The City generated approximately \$2,900,000 for capital projects. As a result, the 1991 Police and Fire COPS are considered defeased, and the related liability has been removed from the books.

The refunding certificates of participation for \$10,300,000 are dated December 1, 1998. The principal matures December 1 of each year through 2028 at variable amounts ranging from \$160,000 to \$590,000. Interest is payable semiannually on June 1 and December 1, with interest rates ranging from 4.00% to 4.75% and \$6,300,000 remains outstanding as of June 30, 2012.

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
Year ending June 30:			
2013	\$ 255,000	\$ 292,348	\$ 547,348
2014	260,000	280,630	540,630
2015	275,000	268,188	543,188
2016	285,000	254,956	539,956
2017	300,000	241,062	541,062
2018 to 2022	1,725,000	971,969	2,696,969
2023 to 2027	2,175,000	511,219	2,686,219
2028 to 2029	1,025,000	49,281	1,074,281
	<u>\$ 6,300,000</u>	<u>\$ 2,869,653</u>	<u>\$ 9,169,653</u>

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Notes to the Basic Financial Statements

Year ended June 30, 2012

(c) 2004 A and B Refunding Certificates of Participation

In 2004, the Authority issued \$43,130,000 of refunding certificates of participation, series A and series B. A portion of the proceeds of the Series 2004A certificates were used to refund, on an advance basis, a portion of the 1995 certificates of participation issued by the Torrance Improvement Corporation to construct certain maintenance and entertainment facilities within the City. Proceeds from the Series 2004B certificates was used to refund on a current basis the portion of the 1995 certificates that was not advanced refunded with the proceeds from the Series 2004A. The debt proceeds and the 1995 certificates of participation reserves of \$3,470,479 were deposited in an irrevocable trust with an escrow agent to redeem the 1995 certificates of participation on April 1, 2005. As a result the 1995 certificates of participation are considered defeased, and the related liability has been removed from the books.

2004 A Refunding Certificates of Participation

The refunding certificates of participation for series A in the amount of \$19,215,000 are dated October 13, 2004. The principal matures June 1 of each year through 2034 at variable amounts ranging from \$315,000 to \$1,005,000. Interest is payable semiannually on June 1 and December 1, with interest rates ranging from 2% to 5% and \$12,225,000 remains outstanding as of June 30, 2012. Certificates maturing on or before June 1, 2015 are subject to optional prepayment, in whole or in part, on any business day on or after June 1, 2014 at the stated prepayment price.

Annual debt service requirements are as follows:

	Principal	Interest	Total
Year ending June 30:			
2013	\$ 955,000	\$ 585,753	\$ 1,540,753
2014	990,000	554,237	1,544,237
2015	315,000	504,737	819,737
2016	330,000	493,712	823,712
2017	345,000	481,750	826,750
2018 to 2022	1,990,000	2,133,250	4,123,250
2023 to 2027	2,535,000	1,584,000	4,119,000
2028 to 2032	3,230,000	883,750	4,113,750
2033 to 2034	1,535,000	116,000	1,651,000
	<u>\$ 12,225,000</u>	<u>\$ 7,337,189</u>	<u>\$ 19,562,189</u>

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2004 B Refunding Certificates of Participation

The refunding certificates of participation for series B in the amount of \$23,915,000 are dated January 5, 2005. The principal matures June 1 commencing in 2015 and is due June 1 each year after until 2034 at variable amounts ranging from \$720,000 to \$1,855,000. Interest is payable semiannually on June 1 and December 1, with interest rates ranging from 5.00% to 5.25% and \$23,915,000 remains outstanding as of June 30, 2012. Certificates are subject to an optional prepayment, in whole or in part, on any business day on or after June 1, 2014 at the stated prepayment price.

Annual debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2013	\$ —	1,232,962	1,232,962
2014	—	1,232,962	1,232,962
2015	720,000	1,232,962	1,952,962
2016	755,000	1,196,962	1,951,962
2017	790,000	1,159,213	1,949,213
2018 to 2022	4,590,000	5,161,813	9,751,813
2023 to 2027	5,870,000	3,884,388	9,754,388
2028 to 2032	7,575,000	2,182,688	9,757,688
2033 to 2034	3,615,000	287,175	3,902,175
	<u>\$ 23,915,000</u>	<u>17,571,125</u>	<u>41,486,125</u>

(d) 2009 Certificates of Participation

In 2009, the Torrance Public Financing Authority issued certificates of participation dated December 1, 2009 in the amount of \$18,880,000. A portion of the proceeds of the Certificates was used to finance the acquisition price of \$17,650,000 for approximately 15 acres of real property located at 465 Crenshaw Boulevard in the City. The City expects to use the property for a regional transit center and other City uses.

The principal matures September 1 of each year through 2039 at variable amounts ranging from \$310,000 to \$1,220,000. Interest is payable on March 1 and September 1 with interest rates ranging from 2.0% to 4.5% and \$18,255,000 remains outstanding as of June 30, 2012.

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Year ended June 30, 2012

Annual debt service requirements are as follows:

	Annual Debt Service Requirement		
	Principal	Interest	Total
Year ending June 30:			
2013	\$ 325,000	\$ 930,594	\$ 1,255,594
2014	335,000	920,694	1,255,694
2015	345,000	909,631	1,254,631
2016	360,000	896,394	1,256,394
2017	375,000	881,694	1,256,694
2018 to 2022	2,125,000	4,155,234	6,280,234
2023 to 2027	2,725,000	3,555,369	6,280,369
2028 to 2032	3,540,000	2,734,037	6,274,037
2033 to 2037	4,655,000	1,622,362	6,277,362
2038 to 2040	3,470,000	293,150	3,763,150
	<u>\$ 18,255,000</u>	<u>\$ 16,899,159</u>	<u>\$ 35,154,159</u>

(5) Capital Leases

The Authority has entered into sublease agreements with the City for various assets. Under each agreement, the resulting sublease meets all requirements for accounting for the agreement as a capital lease for financial statement purposes. As such, the assets have been transferred to the City.

The sublease agreements are summarized as follows:

(a) Fire Station Sublease

The original sublease of the fire station commenced on September 1, 1991. Due to the 1998 Refunding Certificates of Participation, a new sublease was entered into on December 1, 1998 and is scheduled to run to December 1, 2028. Under the current sublease, the City is required to make semiannual payments sufficient in both time and amount to pay, when due, the principal and interest with respect to the refunding certificates. The City must deposit payments with the trustee one day prior to each December 1 and June 1.

(b) Police Facility Sublease

The original sublease of the police facility commenced on November 1, 1991. Due to the 1998 Refunding Certificates of Participation, the new sublease was entered into on December 1, 1998 and is scheduled to run to December 1, 2028. Under the current sublease, the City is required to make semiannual payments sufficient in both time and amount to pay, when due, the principal and interest with respect to the refunding certificates. The City must deposit payments with the trustee one day prior to each December 1 and June 1.

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(c) *Property Sublease*

The property sublease of the Cable Communications Building, the General Aviation Center, and Fire Stations #2, 3, 4, 5 and 6 commenced on October 13, 2004. According to the 1995 Refunding Certificates of Participation, the sublease is scheduled to run to June 1, 2034. Under the sublease, the City is required to make semiannual payments sufficient in both time and amount to pay, when due, the principal and interest with respect to the refunding certificates. The City must deposit payments with the trustee each May 15 and November 15.

Lease payments may be reduced from time to time by rental credit provided for in the lease agreement and related bond indenture.

Since the lease payment receivables do not represent currently available spendable resources in the fund financial statements, they are offset in the balance sheet in an equal amount under the financial statement caption entitled "Unearned revenue." In the government-wide financial statements, the lease receivable of \$60,695,000 is shown as a noncurrent asset on the statement of net assets as of June 30, 2012.

